

OSCEOLA TOWNSHIP
HOUGHTON COUNTY, MICHIGAN

AUDITED FINANCIAL STATEMENTS AND
SUPPLEMENTAL FINANCIAL INFORMATION

March 31, 2004

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

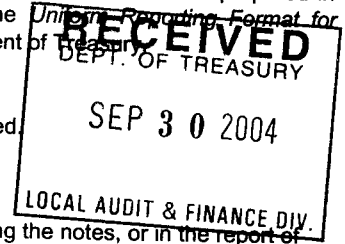
Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name Osceola Township	County Houghton
Audit Date 3/31/04	Opinion Date 8/30/04	Date Accountant Report Submitted to State: 9/29/04	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations



You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).	✓		
Single Audit Reports (ASLGU).	✓		

Certified Public Accountant (Firm Name) BRUCE A. RUKKILA, CPA, PC			
Street Address 310 SHELLEN AVENUE	City HOUGHTON	State MI	ZIP 49931
Accountant Signature		Date	

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INDEPENDENT AUDITOR'S REPORT

Honorable Supervisor and Board of Trustees
Osceola Township
Dollar Bay, Michigan

We have audited the accompanying general purpose financial statements of Osceola Township, as of and for the year ended March 31, 2004. These general purpose financial statements are the responsibility of the Township's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of Osceola Township, as of March 31, 2004, and the results of its operations and the cash flows of its proprietary and similar trust fund types for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 30, 2004 on our consideration of Osceola Townships' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

Our audit was made for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The combining and individual fund financial statements listed in the table of contents are presented as supplemental information and are not a required part of the general purpose financial statements of Osceola Township. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, are fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

August 30, 2004

Bruce A. Rukkila, CPA, PC
Certified Public Accountants

OSCEOLA TOWNSHIP **COMBINED BALANCE SHEETS - ALL FUND TYPES AND ACCOUNT GROUPS**

March 31, 2004

	Governmental Fund Types		Proprietary Fund Type		Fiduciary Fund Type		Account Groups			Totals	
	Special Revenue		Enterprise		Agency		General Fixed Assets		Long-Term Obligations		(Memorandum Only)
	General										
ASSETS AND OTHER DEBITS:											
Cash	\$ 113,418	\$ 13,445	\$ 5,482	\$ 7,281	\$ -	\$ -					
Restricted cash	-	-	102,967	-	-	-					180,431
Investments	-	-	-	-	-	-					21,576
Accounts receivable	-	-	7,100	-	-	-					79,026
Taxes receivable	4,586	6,644	-	-	-	-					8,099
Due from other funds	2,889	38,511	-	-	-	-					9,879
Fixed assets	-	-	-	-	-	-					81,429
Accumulated depreciation	-	-	2,547,007	-	-	1,156,874					2,298,613
Amount to be provided for retirement: of general long-term debt	-	-	(551,665)	-	-	-					(497,121)
TOTAL ASSETS AND OTHER DEBITS	\$ 120,893	\$ 58,600	\$ 2,110,891	\$ 7,281	\$ 1,156,874	\$ 142,607					\$ 2,298,290
LIABILITIES:											
Accounts payable	\$ 14,935	\$ -	\$ 12,685	\$ -	\$ -	\$ -					80,043
Due to other funds	38,511	-	1,784	1,105	-	-					81,429
Current maturities on bond payable	-	-	5,000	-	-	-					4,000
Bonds payable - net of current maturities	-	-	1,039,000	-	-	-					117,000
Lease payable	-	-	-	-	-	-					1,116
Due to other governmental units	-	-	-	6,176	-	-					4,147
Accrued expenses	2,021	-	1,375	-	-	-					3,150
Deferred revenue	4,586	6,644	-	-	-	-					9,879
Loan Payable	-	-	-	-	-	142,607					115,242
TOTAL LIABILITIES	60,053	6,644	1,059,844	7,281	-	142,607					416,006
FUND EQUITY AND OTHER CREDITS:											
Contributed Capital	-	-	628,400	-	-	-					275,100
Retained earnings	-	-	422,647	-	-	-					421,820
Investment in general fixed assets	-	-	-	-	-	1,156,874					1,083,112
Fund balance - Unreserved	60,840	51,956	-	-	-	-					102,252
TOTAL FUND EQUITY AND OTHER CREDITS	60,840	51,956	1,051,047	-	-	1,156,874					1,882,284
TOTAL LIABILITIES, FUND EQUITY AND OTHER CREDITS	\$ 120,893	\$ 58,600	\$ 2,110,891	\$ 7,281	\$ 1,156,874	\$ 142,607					\$ 2,298,290

The accompanying notes to the financial statements are an integral part of this statement.

OSCEOLA TOWNSHIP
COMBINED STATEMENTS OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - ALL GOVERNMENTAL FUND TYPES
Year Ended March 31, 2004

	Governmental Fund Types		Totals (Memorandum Only)	
	General	Special Revenue	2004	2003
REVENUES:				
Taxes	\$ 26,829	\$ 43,703	\$ 70,532	\$ 69,363
State	169,313	-	169,313	173,411
Local	-	8,092	8,092	5,340
Grants	-	148,500	148,500	-
Interest	268	83	351	1,348
Other	31,427	83	31,510	38,328
TOTAL REVENUES	227,837	200,461	428,298	287,790
EXPENDITURES:				
Assessor	7,060	-	7,060	6,396
Supervisor	10,083	-	10,083	9,678
Clerk	10,021	-	10,021	9,331
Treasurer	18,777	-	18,777	15,274
Township Board	10,964	-	10,964	11,040
Town Hall	19,775	-	18,672	16,670
General Services	86,573	-	86,573	69,328
Elections	1,641	-	1,641	6,086
Maintenance Buildings	22,530	-	22,530	17,701
Roads and Streets	37,419	-	37,419	30,870
Fire Protection	24,767	-	24,767	22,656
Fire Protection Fund	-	200,127	200,127	57,582
Road Improvement Fund	-	20,517	20,517	7,712
TOTAL EXPENDITURES	249,610	220,644	469,151	280,324
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(21,773)	(20,183)	(40,853)	7,466
OTHER FINANCING SOURCES (USES):				
Loan Proceeds	-	52,500	52,500	-
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	(21,773)	32,317	10,544	7,466
FUND BALANCE, BEGINNING OF YEAR	82,613	19,639	102,252	94,786
FUND BALANCE, END OF YEAR	\$ 60,840	\$ 51,956	\$ 112,796	\$ 102,252

The accompanying notes to the financial statements are an integral part of this statement.

OSCEOLA TOWNSHIP
COMBINED STATEMENTS OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL AND SPECIAL REVENUE FUNDS
Year Ended March 31, 2004

	General			Special Revenue		
	Budget	Actual	Variance- Favorable (Unfavorable)	Budget	Actual	Variance- Favorable (Unfavorable)
REVENUES:						
Taxes	\$ 25,000	\$ 26,829	\$ 1,829	\$ -	\$ 43,703	\$ 43,703
State	166,203	169,313	3,110	-	-	-
Local	-	-	-	-	8,092	8,092
Grants	-	-	-	-	148,500	148,500
Interest	200	268	68	-	83	83
Other	21,100	31,427	10,327	-	83	83
TOTAL REVENUES	212,503	227,837	15,334	-	200,461	200,461
EXPENDITURES:						
Assessor	7,090	7,060	30	-	-	-
Supervisor	10,060	10,083	(23)	-	-	-
Clerk	10,030	10,021	9	-	-	-
Treasurer	17,450	18,777	(1,327)	-	-	-
Township Board	11,125	10,964	161	-	-	-
Town Hall	13,575	19,775	(6,200)	-	-	-
General Services	81,872	86,573	(4,701)	-	-	-
Elections	1,660	1,641	19	-	-	-
Maintenance Buildings	22,735	22,530	205	-	-	-
Roads and Streets	26,130	37,419	(11,289)	-	-	-
Fire Protection	24,925	24,767	158	-	-	-
Fire Protection Fund	-	-	-	-	200,127	(200,127)
Road Improvement Fund	-	-	-	-	20,517	(20,517)
TOTAL EXPENDITURES	226,652	249,610	(22,958)	-	220,644	(220,644)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(14,149)	(21,773)	(7,624)	-	(20,183)	(20,183)
OTHER FINANCING SOURCES (USES):						
Loan Proceeds	-	-	-	-	52,500	52,500
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	\$ (14,149)	(21,773)	\$ (7,624)	\$ -	32,317	\$ 32,317
FUND BALANCE, BEGINNING OF YEAR		82,613			19,639	
FUND BALANCE(DEFICIT), END OF YEAR		\$ 60,840			\$ 51,956	

The accompanying notes to the financial statements are an integral part of this statement.

OSCEOLA TOWNSHIP
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES
IN RETAINED EARNINGS
PROPRIETARY FUND TYPE (WATER FUND)
Year Ended March 31, 2004 and 2003

	2004	2003
OPERATING REVENUES:		
Charges for services	\$ 112,739	\$ 94,763
Other	16,441	698
TOTAL OPERATING REVENUES	129,180	95,461
EXPENSES:		
Salaries	15,522	14,718
Payroll taxes	1,186	1,126
Insurance	9,790	4,628
Operating supplies	1,797	-
Operating expenses	-	2,210
Repairs and maintenance	5,176	4,003
Office supplies	1,528	843
Utilities	9,579	9,268
Travel expenses	1,076	465
Professional services	2,955	1,440
Depreciation	54,544	31,343
Miscellaneous	3,923	3,447
TOTAL EXPENSES	107,076	73,491
OPERATING INCOME	22,104	21,970
NON-OPERATING REVENUES (EXPENSES)		
Interest income	3,828	2,263
Interest expense	(33,805)	(6,284)
TOTAL NON-OPERATING REVENUES (EXPENSES)	(29,977)	(4,021)
NET INCOME(LOSS)	(7,873)	17,949
RETAINED EARNINGS, BEGINNING OF YEAR	421,820	389,046
ADJUSTMENTS TO FUND EQUITY	8,700	14,825
RETAINED EARNINGS, END OF YEAR	\$ 422,647	\$ 421,820

The accompanying notes to the financial statements are an integral part of this statement.

OSCEOLA TOWNSHIP
STATEMENT OF CASH FLOW
PROPRIETARY FUND TYPE (WATER FUND)
Year Ended March 31, 2004
With Comparative Totals for Year Ended March 31, 2004

	Water Fund	TOTALS (Memorandum Only)	
		2004	2003
RECONCILIATION OF OPERATING			
INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Operating Income (Loss)	\$ 22,105	\$ 22,105	\$ 21,970
Adjustments to Reconcile Operating			
Income to Net Cash Provided by Operating Activities:			
Depreciation	54,544	54,544	31,343
(Increase) Decrease in accounts receivable	(647)	(647)	(1,725)
(Increase) Decrease in due from other funds	39,214	39,214	(39,214)
Increase (Decrease) in accounts payable	(67,358)	(67,358)	13,723
Increase (Decrease) in due to other funds	408	408	1,376
Increase (Decrease) in accrued expenses	187	187	145
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>48,453</u>	<u>48,453</u>	<u>27,618</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Purchase of fixed assets	(1,331,506)	(1,331,506)	(61,785)
Proceeds from long-term debt	935,000	935,000	0
Proceeds from federal grant	362,000	362,000	0
Bond payments	(12,000)	(12,000)	(4,000)
Interest paid on bonds	(33,805)	(33,805)	(6,284)
NET CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(80,311)</u>	<u>(80,311)</u>	<u>(72,069)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest received on cash deposits	3,828	3,828	2,263
NET CASH FLOWS FROM INVESTING ACTIVITIES	<u>3,828</u>	<u>3,828</u>	<u>2,263</u>
NET INCREASE (DECREASE) IN CASH AND RESTRICTED CASH	(28,030)	(28,030)	(42,188)
CASH AND RESTRICTED CASH, BEGINNING OF YEAR	<u>136,479</u>	<u>136,479</u>	<u>178,667</u>
CASH AND RESTRICTED CASH, END OF YEAR	<u>\$ 108,449</u>	<u>\$ 108,449</u>	<u>\$ 136,479</u>

The accompanying notes to financial statements are an integral part of this statement.

OSCEOLA TOWNSHIP
NOTES TO FINANCIAL STATEMENTS
March 31, 2004

Osceola Township is a General Law Township located in Houghton County, Michigan, and encompasses an area of 26.5 square miles. The Township operates under an elected Board of Trustees (5 members, including the Township Supervisor, Township Clerk, Township Treasurer, and two trustees) and provides services to a population of approximately 1,875 Township residents.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Osceola Township conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant accounting policies:

FINANCIAL REPORTING ENTITY

As required by generally accepted accounting principles, the financial statements of Osceola Township contain all of the Township's funds. There are no other governmental units within the Township that are controlled by or dependent upon the Township's Board of Trustees. Control by or dependence on the Township was determined on the basis of appointment of governing authority, budget adoption, taxing authority, outstanding debt secured by revenues or general obligations of the Township, obligation of the Township to finance any deficits that may occur, surplus funds, and scope of public service.

FUND ACCOUNTING

The accounts of the Township are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent, and the means by which spending activities are controlled. The various funds of the Township are grouped in the financial statements in this report into three broad fund types and four generic funds as follows:

GOVERNMENTAL FUND TYPES

General Fund

The General Fund is the general operating fund of the Township. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds

Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than special assessments or major capital projects) that are legally restricted to expenditures for specific purposes. The Fire Protection and Road Improvement are special revenue type funds.

OSCEOLA TOWNSHIP
NOTES TO FINANCIAL STATEMENTS
March 31, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

PROPRIETARY FUND TYPE

Enterprise Fund (Water Fund)

Enterprise Funds are used to account for operations, (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The Water Fund is an enterprise type fund.

FIDUCIARY FUND TYPE

Trust and Agency Fund

The Trust and Agency Fund (Tax Collection Fund) is used to account for assets held by the Township in trustee capacity as an agent for individuals, private organizations, other governments, and/or other funds of the Township. This fund is custodial in nature (assets equal liabilities) and does not involve measurement of the results of operations.

FIXED ASSETS AND LONG-TERM LIABILITIES

The accounting and reporting treatment applied to the fixed assets and long-term liabilities associated with a fund are determined by its measurement focus. All governmental funds are accounted for on a spending or "financial flow" measurement focus. This means that only current assets (expendable available financial resources) and current liabilities (those expected to be liquidated with expendable financial resources) are generally included on their balance sheets. Their reported fund balance (net current assets) is considered a measure of "available spendable resources." Governmental fund operating statement present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

Fixed assets used in governmental fund type operations (general fixed assets) are accounted for in the General Fixed Assets Account Group, rather than in governmental funds. A public domain's ("infrastructure") general fixed assets consisting of certain improvements other than buildings, including roads, bridges, curbs and gutters, streets and sidewalks, drainage systems and lighting systems are not capitalized along with other general fixed assets. All fixed assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated fixed assets are valued at their estimated fair value on the date donated.

Long-term liabilities expected to be financed from governmental funds are accounted for in the General Long-Term Debt Account Group, not in the governmental funds.

**OSCEOLA TOWNSHIP
NOTES TO FINANCIAL STATEMENTS**

March 31, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The General Fixed Assets Account Group and the General Long-Term Debt Account Group are not "funds." Their purpose is related only to the measurement of financial position. They are not involved with measurement of results of operations.

Proprietary funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and all liabilities (whether current or non-current) associated with their activity are included on their balance sheets. Their reported fund equity (net total assets) is segregated into contributed capital and retained earnings components. Operating statements of proprietary fund types present increases (revenues) and decreases (expenses) in net total assets.

Depreciation on all exhaustible fixed assets used by proprietary funds is charged as an expense against their operations on a straight-line basis. Accumulated depreciation is reported on proprietary fund balance sheets. Depreciation is based on estimated useful lives using 5 years for equipment and 10-40 years for other assets. Depreciation expense for the year ended March 31, 2004 was \$54,544.41.

BASIS OF ACCOUNTING

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

All governmental funds and agency funds are accounted for using the modified accrual basis of accounting. Under this basis revenues are recognized when they become both measurable and available to finance expenditures of the current period. Significant revenues susceptible to accrual include payments in lieu of taxes, federal and state sources, and other intergovernmental revenues. Other revenue sources such as licenses, permits, charges for services, sales, fees, fines, rentals, and others are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are not accrued in the governmental fund types and Agency Funds.

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, with certain exceptions such as interest on long-term debt which is generally recognized when due.

All proprietary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses recognized when they are incurred.

The Trust and Agency Fund is accounted for on the basis of cash receipts and cash disbursements.

**OSCEOLA TOWNSHIP
NOTES TO FINANCIAL STATEMENTS
March 31, 2004**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

BUDGETARY DATA

The Township follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. During February, the Township Clerk prepares a proposed budget for the General and Special Revenue Funds for the fiscal year commencing the following April 1 and submits the proposed budget to the Township Board of Trustees at the regular March meeting.
- b. The Township Board of Trustees reviews the budget, which includes proposed expenditures and the means of financing them.
- c. The budget, subsequent to approval by the Board of Trustees, is submitted to the Township at the Annual Meeting, at which time public comment is invited and the final budget is formally adopted.
- d. The Board of Trustees reviews the budget during the fiscal year and makes amendments as it deems appropriate.
- e. Budget appropriations lapse at the end of the fiscal year.
- f. The annual budget for the Enterprise (Water) Fund is approved and submitted to the Farmers Home Administration in April of each year.

ENCUMBRANCES

Encumbrances are defined as commitments related to unperformed contracts for goods and services. The Township does not record encumbrances in the normal course of operating its accounting system and none are recorded in the accompanying financial statements.

PROPERTY TAXES

Property taxes are levied based on assessed values of property located in the Township. Assessed values are established annually (the first Monday in March) and equalized by the State. The property taxes are levied on December 1, and are payable without penalty through the following February 28. Property taxes are recognized as revenue in the fiscal year levied to the extent that they are measurable and available in accordance with NCGA interpretation 3 (Revenue Recognition - Property Taxes). The property taxes become an enforceable lien on property as of December 31.

The Township collects its own property taxes, and also collects property taxes for the County and the School Districts within its jurisdiction, and sewer assessments for Torch Lake Water and Sewage Authority. Collections and remittances of all property taxes are accounted for in the Trust and Agency Fund.

OSCEOLA TOWNSHIP
NOTES TO FINANCIAL STATEMENTS
March 31, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The 2003 taxable valuation of Osceola Township amounted to \$20,304,081 on which ad valorem taxes of \$27,152 were levied for Township operating purposes (1.2655 mills), \$17,225 for Tamarack City fire protection (4.0 mills), \$6,210 for Dollar Bay fire protection (.51 mills), and \$21,280 for Township road improvements (.9919 mill). These amounts are recorded as revenue on the Township's records in and for the fiscal year ending March 31, 2004.

TOTAL COLUMNS ON COMBINED BALANCE SHEETS - ALL FUNDS

The total columns on the combined statements of this report are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in this column does not present financial position in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation which requires that inter-fund eliminations be made in the aggregation of this data.

CASH

For the purpose of the statement of cash flows, cash is defined as checking, money market, certificates of deposits, and savings accounts.

ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE B - CASH AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes the township to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities, and other direct obligation of the United States, or any agency or instrumentality of the United States; United States Government or Federal Agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local governments in Michigan. Financial institutions eligible for deposits of public funds must maintain an office in Michigan.

The Township Board has designated two banks for the deposit of township funds. The Township Board in accordance with Public Act 196 of 1997 adopted an investment policy.

OSCEOLA TOWNSHIP
NOTES TO FINANCIAL STATEMENTS
March 31, 2004

NOTE B - CASH AND INVESTMENTS (Continued)

CASH DEPOSITS

Governmental Accounting Standards Board (GASB) Statement No. 3, requires reporting risk disclosures. At March 31, 2004, the book value of the Township's demand deposits, consisting primarily of certificates of deposit and other cash equivalents, was \$242,593 with a corresponding bank balance of \$244,055. Qualifying deposits are insured by the Federal Deposit Insurance Corporation up to \$100,000. Of the bank balance, approximately \$229,963, representing approximately 94% of the Township's deposits, was covered by Federal Depository Insurance. Michigan law does not require collateralization of government deposits, therefore, only the \$229,963 was insured and \$14,092 was neither insured nor collateralized.

NOTE C - RESTRICTED CASH - ENTERPRISE FUNDS

Proceeds from operation of the Water Supply Fund are set aside for payment of revenue bonds and are restricted assets on the enterprise fund balance sheet since their use is limited by the bond indenture and ordinance.

These amounts were sufficient at March 31, 2004 to meet the bond reserve requirements of the bond ordinance.

NOTE D - INTERFUND RECEIVABLES AND PAYABLE

The amounts of interfund receivables and payables at March 31, 2004 are as follows:

	<u>Receivable</u>		<u>Payable</u>
DB Fire Protection	\$ 7,657	General	\$ 7,657
TC Fire Protection	9,479	General	9,479
SUBTOTAL	<u>17,136</u>	SUBTOTAL	<u>17,136</u>
Road Improvement	<u>21,375</u>	General	<u>21,375</u>
SUBTOTAL	<u>21,375</u>	SUBTOTAL	<u>21,375</u>
General	2,889	Water	1,784
		Tax Collection	1,105
SUBTOTAL	<u>2,889</u>		<u>2,889</u>
TOTAL	<u>\$ 41,400</u>	TOTAL	<u>\$ 41,400</u>

OSCEOLA TOWNSHIP
NOTES TO FINANCIAL STATEMENTS
March 31, 2004

NOTE E - PROPERTY, PLANT, AND EQUIPMENT

A summary of the changes in the General Fixed Assets Account Group is as follows:

	Balance 03/31/03	Additions	Deductions	Balance 03/31/04
Land	\$ 406,245	\$ 18,543	\$ -	\$ 424,788
Buildings	294,916	-	-	294,916
Vehicles	234,629	52,500	-	287,129
Equipment & Machinery	43,789	2,719	-	46,508
Improvements	18,611	-	-	18,611
Roads & Streets	84,922	-	-	84,922
TOTAL	\$ 1,083,112	\$ 73,762	\$ 0	\$ 1,156,874

NOTE F - WATER FUND FIXED ASSETS

Changes in the Water Fund fixed assets in fiscal year 2004 are as follows:

	Balance 03/31/03	Additions	Deductions	Balance 03/31/04
Land	\$ 15,600	\$ -	\$ -	\$ 15,600
Computers	2,224	6,015	-	8,239
Vehicles	10,200	-	-	10,200
Water System	1,185,145	1,327,823	-	2,512,968
TOTAL	\$ 1,213,169	\$ 1,333,838	\$ 0	\$ 2,547,007

NOTE G - LONG-TERM DEBT

WATER SUPPLY SYSTEM REVENUE BONDS

The Township of Osceola Water Supply System Revenue Bonds, dated May 5, 1981, in the amount of \$170,000 were purchased at par by the Farmers Home Administration. The bonds were issued pursuant to Ordinance No. 13, adopted by the Township on December 11, 1980, as amended. The bonds mature serially on January 1, of each year.

The Revenue bonds are self-liquidating and not a general obligation of the Township, but shall be payable solely from the revenues derived from the operation of the system. A statutory first lien has been created on these revenues.

Bonds maturing in the years 1992 to 2021, are subject to redemption prior to maturity, in inverse numerical order, at the option of the Township, on any interest payment date on or after January 1, 1991, at par and accrued interest.

OSCEOLA TOWNSHIP
NOTES TO FINANCIAL STATEMENTS
March 31, 2004

NOTE G - LONG-TERM DEBT (Continued)

The bonds mature as indicated below with interest at 5% per annum payable semi-annually on January 1, and July 1 of each year.

**SCHEDULE OF WATER SUPPLY &
DISTRIBUTION SYSTEM REVENUE BONDS**

Fiscal Year Ending	March 31, 2004		Principal	Total
	July 1 st Interest	January 1 st Interest		
2004-2005	2,925	2,925	5,000	10,850
2005-2006	2,800	2,800	5,000	10,600
2006-2007	2,675	2,675	5,000	10,350
2007-2008	2,550	2,550	5,000	10,100
2008-2013	10,625	10,625	31,000	52,250
2013-2018	6,350	6,350	39,000	51,700
2018-2021	1,350	1,350	27,000	29,700
TOTAL	\$ 29,275	\$ 29,275	\$ 117,000	\$ 175,550

Water Supply System Junior Lien Revenue Bond, Series 2003A

Water Supply System Junior Lien Revenue Bond, Series 2003A was issued in 2003 in the amount of \$756,000 for the purpose of acquiring, constructing certain additions, renovations, expansion, and equipping improvements to the Township's water supply system. This bond is self-liquidating and is not a general obligation of the Township, but is payable both as to principal and interest solely from the revenues of the Water Supply System. The bond bears an interest rate not to exceed 4.5% per annum.

The bonds are subject to redemption prior to maturity, in inverse chronological order, at the option of the Township, on any interest payment date after October 1, 2004. The payment schedule for the bond is as follows:

OSCEOLA TOWNSHIP
NOTES TO FINANCIAL STATEMENTS
March 31, 2004

NOTE G - LONG-TERM DEBT (Continued)

WATER SUPPLY SYSTEM FUND
SCHEDULE OF WATER SUPPLY
SYSTEM REVENUE BONDS

March 31, 2004

<u>Fiscal Year</u>	<u>April Interest</u>	<u>April Principal</u>	<u>October 1 Interest</u>	<u>Total</u>
2004-05	0	0	16,853	16,853
2005-06	16,853	7,000	16,695	40,548
2006-07	16,695	8,000	16,515	41,210
2007-08	16,515	8,000	16,335	40,850
2008-13	79,718	46,000	78,683	204,401
2013-18	74,093	56,000	72,833	202,926
2018-23	67,118	72,000	65,498	204,616
2023-28	58,275	89,000	56,273	203,548
2028-33	47,363	110,000	44,888	202,251
2033-38	33,840	137,000	30,758	201,598
2038-43	16,943	171,000	13,095	201,038
2043-44	1,013	45,000	0	46,013
TOTAL	<u>\$ 428,426</u>	<u>\$ 749,000</u>	<u>\$ 428,426</u>	<u>\$ 1,605,852</u>

Water Supply System Junior Lien Revenue Bond, Series 2003B

Water Supply System Junior Lien Revenue Bond, Series 2003B was issued in 2003 in the amount of \$179,000 for the purpose of acquiring, constructing certain additions, renovations, expansion, and equipping improvements to the Township's water supply system. This bond is self-liquidating and is not a general obligation of the Township, but is payable both as to principal and interest solely from the revenues of the Water Supply System. The bond bears an interest rate not to exceed 4.5% per annum.

The bonds are subject to redemption prior to maturity, in inverse chronological order, at the option of the Township, on any interest payment date after October 1, 2004. The payment schedule for the bond is as follows:

OSCEOLA TOWNSHIP
NOTES TO FINANCIAL STATEMENTS
March 31, 2004

NOTE G - LONG-TERM DEBT (Continued)

WATER SUPPLY SYSTEM FUND
SCHEDULE OF WATER SUPPLY
SYSTEM REVENUE BONDS

March 31, 2004

<u>Fiscal Year</u>	<u>April Interest</u>	<u>April Principal</u>	<u>October Interest</u>	<u>Total</u>
2004-05	0	0	4,005	4,005
2005-06	4,005	2,000	3,960	9,965
2006-07	3,960	2,000	3,915	9,875
2007-08	3,915	2,000	3,870	9,785
2008-13	18,900	10,000	18,675	47,575
2013-18	17,640	14,000	17,325	48,965
2018-23	15,953	17,000	15,570	48,523
2023-28	13,838	21,000	13,365	48,203
2028-33	11,228	27,000	10,620	48,848
2033-38	7,920	33,000	7,178	48,098
2038-43	3,893	41,000	2,970	47,863
2043-44	203	9,000	0	9,203
TOTAL	<u>\$ 101,455</u>	<u>\$ 178,000</u>	<u>\$ 101,453</u>	<u>\$ 380,908</u>

OTHER LONG-TERM DEBT

The Township has several installment loans payable which are detailed below:

<u>Purpose of Loan</u>	<u>Date Of Issue</u>	<u>Original Amount</u>	<u>Maturity</u>	<u>Interest Rate</u>	<u>3/31/04 Balance</u>
Building	06/01/97	\$50,300	06/01/07	7.00%	\$19,481
Fire Truck	12/09/99	\$110,000	06/01/14	4.75%	\$77,000
T.C. Fire Truck	07/03/03	\$52,500	03/15/11	3.90%	\$46,125

SCHEDULE OF BUILDING LOAN

March 31, 2004

<u>Payable Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004-2005	5,100	1,276	6,376
2005-2006	5,463	913	6,376
2006-2007	5,852	524	6,376
2007-2008	3,066	107	3,173
TOTAL	<u>\$ 19,481</u>	<u>\$ 2,820</u>	<u>\$ 22,301</u>

OSCEOLA TOWNSHIP
NOTES TO FINANCIAL STATEMENTS
March 31, 2004

NOTE G - LONG-TERM DEBT (Continued)

SCHEDULE OF FIRE TRUCK LOAN

March 31, 2004

<u>Fiscal Year</u>	<u>December 1st Interest</u>	<u>June 1st Interest</u>	<u>Principal</u>	<u>Total</u>
2005-2006	1,663	1,829	7,000	10,492
2006-2007	1,496	1,663	7,000	10,159
2007-2008	1,330	1,496	7,000	9,826
2008-2009	1,164	1,330	7,000	9,494
2009-2010	998	1,164	7,000	9,162
2010-2011	808	998	8,000	9,806
2011-2012	618	808	8,000	9,426
2012-2013	428	618	8,000	9,046
2013-2014	214	428	9,000	9,642
2014-2015	-	214	9,000	9,214
TOTAL	<u>\$ 8,719</u>	<u>\$ 10,548</u>	<u>\$ 77,000</u>	<u>\$ 96,267</u>

SCHEDULE OF T.C FIRE TRUCK LOAN

March 31, 2004

<u>Fiscal Year</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2004-2005	1,799	5,855	7,654
2005-2006	1,571	6,086	7,657
2006-2007	1,333	6,324	7,657
2007-2008	1,087	6,570	7,657
2008-2009	830	6,827	7,657
2009-2010	564	7,093	7,657
2010-2011	287	7,370	7,657
TOTAL	<u>\$ 7,470</u>	<u>\$ 46,125</u>	<u>\$ 53,595</u>

OSCEOLA TOWNSHIP
NOTES TO FINANCIAL STATEMENTS
March 31, 2004

NOTE G - LONG-TERM DEBT (Continued)

As of March 31, 2004, the aggregate maturities of loans payable are as follows:

<u>Fiscal Year</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2004-2005	\$ 3,075	\$ 10,955	\$ 14,030
2005-2006	5,976	18,549	24,525
2006-2007	5,016	19,176	24,192
2007-2008	4,020	16,636	20,656
2008-2009	3,324	13,827	17,151
2009-2010	2,726	14,093	16,819
2010-2011	2,093	15,370	17,463
2011-2012	1,426	8,000	9,426
2012-2013	1,046	8,000	9,046
2013-2014	642	9,000	9,642
2014-2015	214	9,000	9,214
TOTAL	\$ 29,557	\$ 142,606	\$ 172,163

The following is a summary of the changes in long-term debt for the year ended March 31, 2004:

	<u>3/31/03</u>	<u>Additions</u>	<u>Subtractions</u>	<u>3/31/04</u>
Water Bonds	\$ 1,056,000	\$ 0	\$ 12,000	\$ 1,044,000
Note Payables	115,242	46,125	18,761	142,606
Lease Payable	1,116	0	1,116	0
TOTAL	\$ 1,172,358	\$ 46,125	\$ 31,877	\$ 1,186,606

As of March 31, 2004, the aggregate maturities of long-term debt for the next five years are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004-2005	15,955	29,783	45,738
2005-2006	32,549	53,089	85,638
2006-2007	34,176	51,451	85,627
2007-2008	31,636	49,755	81,391
2008-2013	146,289	227,842	374,131
2013-2018	127,000	195,447	322,447
2018-2023	116,000	166,839	282,839
2023-2028	110,000	141,751	251,751
2028-2033	137,000	114,099	251,099
2033-2038	170,000	79,696	249,696
2038-2043	212,000	36,901	248,901
2043-2044	54,000	1,216	55,216
TOTAL	\$ 1,186,606	\$ 1,147,867	\$ 2,334,473

OSCEOLA TOWNSHIP
NOTES TO FINANCIAL STATEMENTS
March 31, 2004

NOTE H - DEFINED CONTRIBUTION PLAN

The Township is a member of the Manulife Defined Contribution Pension Plan for Michigan Township Employees and provides pension benefits for all of its eligible employees through this plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Full-time employees working forty hours or more per week and elected Township officials are eligible to participate from their date of employment. The Township policy requires contributions of 75% from the Township and 25% from the employee's/official's compensation. Voluntary contributions may be made up to a maximum of 10% of annual compensation. Township contributions for each employee and interest allocated to the employee's account are fully vested. Amounts contributed voluntarily by the employee under the plan, plus any interest earnings, are fully vested at the time of the contribution or crediting of investment earnings. The Township made contributions totaling \$2,529.

NOTE I - SEGMENT INFORMATION FOR ENTERPRISE FUNDS

The Township maintained one Enterprise Fund which provides water services to all residents. Segment information for the year ended March 31, 2004 is as follows:

Operating revenues	\$129,180
Depreciation	\$54,544
Operating income (loss)	\$22,105
Non-operating revenues (expenses)	\$(29,977)
Net income (loss)	\$(7,872)
Property, plant and equipment - additions	\$1,333,838
Net working capital (deficit)	\$(16,262)
Total assets	\$12,582
Long-term liabilities	\$1,039,000
Total equity	\$1,051,047

NOTE J - JOINT VENTURES

TORCH LAKE AREA SEWAGE AUTHORITY

On April 4, 1977, the Townships of Osceola, Schoolcraft, and Torch Lake, and the Village of Lake Linden contracted with the County of Houghton to construct a sewage disposal system. Funds for the construction of this facility were provided by grants from Federal and State agencies and issuance of bonds. Bonds totaling \$1,765,000 were issued in November of 1979. The County of Houghton serves as general obligor for payment of principal and interest on the bonds. On August 14, 1980 these municipalities established the Torch Lake Area Sewage Authority, which subsequently contracted with the County of Houghton to operate the System. On May 10, 1989, the County of Houghton and the four municipalities adopted an Amendment to the Contract for Acquisition, Financing, and Operation of this system retroactive to May 1, 1988. The amendment provides, among other things, for a uniform surcharge for all users of the system and a waiver of all provisions contained in the original agreement regarding the allocation of expenses on a proportional basis.

OSCEOLA TOWNSHIP
NOTES TO FINANCIAL STATEMENTS
March 31, 2004

NOTE J - JOINT VENTURES (Continued)

The final allocated project cost to the local units was as follows:

Village of Lake Linden	41.36%
Torch Lake Township	30.76
Osceola Township	16.71
Schoolcraft Township	<u>11.17</u>
TOTAL	<u>100.00%</u>

The articles of incorporation of the Torch Lake Area Sewage Authority provide for a Board of Trustees to be the governing body. The Board consists of nine members of which two are appointed by each of the above units and one member appointed by the County of Houghton.

The elements considered in the Township's determination that the Torch Lake Area Sewage Authority should not be included as a component unit of the Township are as follows:

1. Osceola Township is not responsible for the designation of the Authority's management.
2. The Township does not significantly influence operations.
3. The municipalities each appoint two of the nine members to the Authority's Board of Trustees.
4. The Township does not have significant fiscal management responsibilities. It does not have a right to receive surplus funds, but is responsible for guaranteeing certain debt along with the other municipalities.
5. The Township provides no direct on-going financial support to the Sewage Authority.
6. The Township does not hold title to the physical assets of the Authority.

A summary of the Authority's financial information for the year ended December 31, 2003 (most recent year compiled) shows the following:

Total assets	\$4,266,419
Total liabilities	\$514,061
Total equity	\$3,752,358
Total revenues	\$256,501
Total expenditures	\$351,070
Long-term debt	\$310,928

The Township does not account for its investment in the Authority using the Equity method, as required by Generally Accepted Accounting Principles.

A special assessment of \$135,000 was charged to the property owners who benefitted from the disposal system. Taxpayers were given the option of paying the amount in full or over a thirty-year period, plus interest at 6%. \$8,241.52 was unpaid on the special assessment at December 31, 2003.

OSCEOLA TOWNSHIP
NOTES TO FINANCIAL STATEMENTS
March 31, 2004

NOTE J - JOINT VENTURES (Continued)

NORTH HOUGHTON COUNTY WATER AND SEWER AUTHORITY

On April 14, 1983 the North Houghton County Water and Sewer Authority was formed by the Villages of Calumet and Laurium and the Townships of Calumet and Osceola for the purpose of constructing and making improvements to waste water collection, transmission, and treatment facilities serving residents of these municipalities. In 1989 the Authority acquired an existing sewage system from the Village of Laurium. The authority has entered into a consent decree with the Michigan Department of Natural Resources to improve the wastewater system. Federal funding totaling approximately \$7,467,660 was obtained to construct improvements necessary to comply with this agreement.

The articles of incorporation of the Authority provide for a Board of Trustees to be the governing body. The Board consists of seven members of which one member is appointed by Osceola Township.

The elements considered in the Township's determination that the North Houghton County Water & Sewage Authority should not be included as a component unit of the Township are as follows:

1. Osceola Township is not responsible for the designation of the Authority's management.
2. The Township does not significantly influence operations.
3. Osceola township appoints only one member to the Authority's Board of Trustees.
4. The Township does not have significant fiscal management responsibilities. It does not have a right to receive surplus funds, but is responsible for guaranteeing certain debt along with the other municipalities.
5. The Township provides no direct on-going financial support to the Authority.
6. The Township does not hold title to the physical assets of the Authority.

A summary of the Authority's financial information for the four years ended December 31, 2002 (most recent period audited) shows the following:

Total assets	\$14,319,221
Total liabilities	\$8,535,843
Total equity	\$5,783,378
Total revenues	\$746,062
Total expenditures	\$942,459
Long-term debt	\$8,388,000

The Township does not account for its investment in the Authority using the Equity method, as required by Generally Accepted Accounting Principles.

NOTE K - EXCESS EXPENDITURES OVER BUDGET

P.A. 621 of 1978, section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

OSCEOLA TOWNSHIP
NOTES TO FINANCIAL STATEMENTS
March 31, 2004

NOTE K - EXCESS EXPENDITURES OVER BUDGET (Continued)

In the body of the financial statements, the Township's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets of the township for these budgetary funds were adopted to the activity level.

During the year ended March 31, 2004, the Township incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated, as follows:

<u>Fund/Activity</u>	<u>Total Appropriations</u>	<u>Amount of Expenditures</u>	<u>Budget Variances</u>
General Fund:			
Supervisor	\$10,060	\$10,083	\$(23)
Treasurer	\$17,450	\$18,777	\$(1,327)
Town Hall	\$13,575	\$19,775	\$(6,200)
General Services	\$81,872	\$86,573	\$(4,701)
Roads & Streets	\$26,130	\$37,419	\$(11,289)
Fire Protection Fund	\$ -	\$ 200,127	\$(200,127)
Road Improvement Fund	\$-	\$20,517	\$(20,517)

NOTE L - RISK MANAGEMENT

The Township is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Township continues to carry commercial insurance for property, liability, wrongful acts, crime inland marine, and other risks of loss including worker's compensation and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE M - SUBSEQUENT EVENTS

Wellhead Protection Program

The Environmental Protection Agency (EPA), in conjunction with the Department of Environmental Quality (DEQ), is requiring all areas of government that provide water to the public to develop and implement a wellhead protection plan. The broad operational goals of wellhead protection are to provide a remedial action zone around a wellhead as a safety buffer against accidental contaminant releases; to create an attenuation zone in which known contaminants can be reduced before they reach the well; and to use wellfield management zones to regulate activities in the recharge area.

The Township's objectives will depend on conditions in the wellfield, for example, the presence of existing or potential contaminant sources, whether current or future land uses must be addressed, and the available resources.

The Township contracted Traverse Engineering to develop a wellhead protection work plan which has been accepted by the DEQ and will be administered by Traverse Engineering. Estimated cost for the project is \$30,000. The Township received a grant from the State of Michigan for fifty percent of the cost of the project. As of March 31, 2004, the Township has requested \$10,716, and has a balance available of \$4,284.

OSCEOLA TOWNSHIP
NOTES TO FINANCIAL STATEMENTS
March 31, 2004

NOTE M - SUBSEQUENT EVENTS (Continued)

Water System Improvement

Osceola Township has applied for a loan/grant to construct improvements to the water system for the residents of Dollar Bay, Woodside, and Mason. The Township contracted U.P. Engineers and Architects, Inc. to prepare a preliminary engineering report for construction of improvements to the water system which has been accepted by the United States Department of Agriculture, Rural Development, and will be administered by U.P. Engineers and Architects, Inc. Estimated cost for the project is \$1,044,000. The Township has received a grant and loan from the United States Department of Agriculture, Rural Development, the loan is not to exceed \$756,000 and the grant is not to exceed \$288,000.

NOTE N - COMMITMENTS AND CONTINGENCIES

ELECTRIC PARK LAND ACQUISITION

The Township has been awarded grant proceeds from the Michigan Department of Environmental Quality in the amount of \$27,000 and a matching grant of \$9,000 from the National Park Service for the purchase of property from L.S. Land. There will be no cost to the Township.

SANDY BOTTOM PARK

The Township has made an agreement with the Michigan Department of Natural Resources for a project designated at the Sandy Bottom Park. The Township has been awarded grant proceeds in the amount of \$121,053 from the Michigan Department of Natural Resources. The estimated cost to the Township for the project is estimated to be \$21,400. The project includes paving the parking lot, pathway improvements, toilet facilities, play area without equipment, picnic area, wood retaining walls, ramps to beach, boat dock, and swimming area delineation.

TAMARACK CITY PARK PROJECT

The Township embarked on a historical park project involving the Tamarack Stamp Mill. The Township has been awarded grant proceeds not to exceed \$53,500 from the Great Lakes Coastal Restoration Grant Program. The Township's portion is estimated to be \$13,375.

NOTE O - PRIOR PERIOD ADJUSTMENT

General Fund: During the year ended March 31, 2003, insurance expense was overstated in the General Fund in the amount of \$4,478. A prior period adjustment was made to correct insurance expense and cash.

Water Fund: An adjustment was made to the accumulated depreciation and depreciation expense for March 31, 2003 in the amount of \$19,594.88 to properly record depreciation for the correct amount.

SUPPLEMENTAL FINANCIAL INFORMATION

OSCEOLA TOWNSHIP
GENERAL FUND
STATEMENTS OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
Years Ended March 31, 2004 and 2003

	2004	2003
REVENUES:		
TAXES:		
Property tax	\$ 26,829	\$ 26,495
STATE:		
State shared revenues	168,998	172,518
Commercial Forest Reserve (CFR)	315	893
Total state	169,313	173,411
INTEREST	268	1,260
OTHER:		
Other revenues	9,850	23,000
Administration Fees	9,941	7,498
Reimbursements	6,123	5,387
Miscellaneous	5,513	2,428
Total other	31,427	38,313
TOTAL REVENUES	227,837	239,479
EXPENDITURES:		
ASSESSOR:		
Salaries	5,040	5,040
Office supplies	1,994	1,319
Travel Expenses	26	37
Total assessor	7,060	6,396
SUPERVISOR:		
Salaries	9,032	8,656
Payroll Taxes	691	662
Travel Expenses	360	360
Total supervisor	10,083	9,678
CLERK:		
Salaries	9,240	8,640
Payroll Taxes	707	661
Travel Expenses	74	30
Total clerk	10,021	9,331
TREASURER:		
Salaries	12,350	11,871
Payroll Taxes	945	908
Tax supplies	4,964	2,495
Office supplies	518	-
Total treasurer	18,777	15,274

OSCEOLA TOWNSHIP
GENERAL FUND
STATEMENTS OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
(Continued)
Years Ended March 31, 2004 and 2003

	2004	2003
TOWNSHIP BOARD:		
Salaries	6,400	6,414
Payroll Taxes	490	491
Miscellaneous	4,074	4,135
Total township board	10,964	11,040
TOWN HALL:		
Operating supplies	2,824	3,074
Rent	1,833	569
Utilities	5,452	3,195
Capital Outlay	3,155	3,456
Principal payments	4,761	4,444
Miscellaneous	135	-
Interest expense	1,615	1,932
Total town hall	19,775	16,670
GENERAL SERVICES:		
Payroll Taxes	6	7
Insurance	14,279	6,286
Utilities	1,661	1,908
Printing and publishing	465	306
Capital Outlay	-	2,766
Professional services	9,293	9,175
Contract Labor	1,833	-
Projects	25,463	17,930
Board of Review	1,015	776
Street lights	25,761	22,173
Miscellaneous	6,797	8,001
Total general services	86,573	69,328
ELECTIONS:		
Salaries	-	3,058
Office supplies	55	1,180
Rent	-	200
Printing and publishing	-	321
Travel Expenses	-	111
Capital Outlay	1,586	1,205
Miscellaneous	-	11
Total elections	1,641	6,086

OSCEOLA TOWNSHIP
GENERAL FUND
STATEMENTS OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
(Continued)
Years Ended March 31, 2004 and 2003

	<u>2004</u>	<u>2003</u>
MAINTENANCE BUILDING:		
Salaries	13,000	12,483
Payroll Taxes	994	955
Operating supplies	1,867	1,519
Repairs and Maintenance	2,203	1,661
Utilities	225	-
Capital Outlay	3,033	339
Miscellaneous	1,208	744
Total maintenance building	<u>22,530</u>	<u>17,701</u>
ROADS AND REPAIRS:		
Repairs and Maintenance	35,957	30,870
Miscellaneous	1,462	-
Total roads and repairs	<u>37,419</u>	<u>30,870</u>
FIRE PROTECTION:		
Operating supplies	22,020	20,382
Utilities	2,547	2,179
Printing and publishing	-	95
Miscellaneous	200	-
Total fire protection	<u>24,767</u>	<u>22,656</u>
TOTAL EXPENDITURES	<u>249,610</u>	<u>215,030</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(21,773)	24,449
FUND BALANCE, BEGINNING OF YEAR	82,613	58,164
FUND BALANCE, END OF YEAR	<u>\$ 60,840</u>	<u>\$ 82,613</u>

OSCEOLA TOWNSHIP
SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEETS
March 31, 2004

	Fire Protection	Road Improvement	Totals (Memorandum Only)	
			2004	2003
ASSETS:				
Cash	\$ 13,445	\$ -	\$ 13,445	\$ 19,440
Taxes receivable	2,028	4,616	6,644	5,616
Due from other funds	17,136	21,375	38,511	39,413
TOTAL ASSETS	\$ 32,609	\$ 25,991	\$ 58,600	\$ 64,469
LIABILITIES:				
Due to other funds	\$ -	\$ -	\$ -	\$ 39,214
Deferred revenue	2,028	4,616	6,644	5,616
TOTAL LIABILITIES	2,028	4,616	6,644	44,830
FUND EQUITY:				
Fund balance	30,581	21,375	51,956	19,639
TOTAL LIABILITIES AND FUND EQUITY	\$ 32,609	\$ 25,991	\$ 58,600	\$ 64,469

OSCEOLA TOWNSHIP
SPECIAL REVENUE FUNDS
COMBINING STATEMENTS OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
March 31, 2004

	Fire Protection	Road Improvement	Totals (Memorandum Only)	
			2004	2003
REVENUES:				
Taxes	\$ 22,673	\$ 21,030	\$ 43,703	\$ 42,868
Local	8,092	-	8,092	5,340
Grants	148,500	-	148,500	-
Interest	83	-	83	88
Other	-	83	83	15
TOTAL REVENUES	179,348	21,113	200,461	48,311
EXPENDITURES:				
Operating supplies	-	20,517	20,517	7,712
Operating Expenses	117	-	117	1,419
Utilities	-	-	-	140
Insurance	4,040	-	4,040	3,562
Equipment	175,098	-	175,098	-
Fuel	156	-	156	812
Miscellaneous	1,903	-	1,903	946
Interest expense	3,280	-	3,280	4,617
Loan Payments	15,533	-	15,533	46,086
TOTAL EXPENDITURES	200,127	20,517	220,644	65,294
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(20,779)	596	(20,183)	(16,983)
OTHER FINANCING SOURCES (USES):				
Loan Proceeds	52,500	-	52,500	-
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES	31,721	596	32,317	(16,983)
FUND BALANCE(DEFICIT), BEGINNING OF YEAR	(1,140)	20,779	19,639	36,622
FUND BALANCE, END OF YEAR	\$ 30,581	\$ 21,375	\$ 51,956	\$ 19,639

OSCEOLA TOWNSHIP
TRUST AND AGENCY FUND
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
Year ended March 31, 2004

	<u>Balance</u> <u>3/31/03</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>3/31/04</u>
<u>TAX COLLECTION FUND</u>				
ASSETS:				
Cash	\$ 5,573	\$ 669,227	\$ 667,519	\$ 7,281
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
LIABILITIES:				
Due to other funds	\$ 1,426	\$ 69,865	\$ 70,185	\$ 1,106
Due to other governmental units	4,147	599,362	597,334	6,175
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL LIABILITIES	\$ 5,573	\$ 669,227	\$ 667,519	\$ 7,281
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

FEDERAL AWARDS PROGRAMS



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**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Honorable Supervisor and Board of Trustees
Osceola Township
Dollar Bay, Michigan

We have audited the financial statements of Osceola Township as of and for the year ended March 31, 2004, and have issued our report thereon dated August 30, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Osceola Township's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Osceola Township's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the audit committee, management, and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Bruce A. Rukkila, CPA, PC
Certified Public Accountants

August 30, 2004



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**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Honorable Supervisor and Board of Trustees
Osceola Township
Dollar Bay, Michigan

Compliance

We have audited the compliance of Osceola Township with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended March 31, 2004. Osceola Township's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Osceola Township's management. Our responsibility is to express an opinion on Osceola Township's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Osceola Township's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Osceola Township's compliance with those requirements.

In our opinion, Osceola Township's complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended March 31, 2004.

Internal Control Over Compliance

The management of Osceola Township is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Osceola Township's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information of the audit committee, management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Bruce A. Rukkila, CPA, PC

Certified Public Accountants

August 30, 2004

OSCEOLA TOWNSHIP
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended March 31, 2004

<u>Federal Grantor/Pass-through Grantor/ Program Title</u>	<u>CFDA Number</u>	<u>Federal Expenditures</u>
U.S. Department of Agriculture		
Rural Utilities Service		
Water Supply System Junior Lien Revenue Bond, Series 2003A	10.760	\$ 756,000
Water Supply System Junior Lien Revenue Bond, Series 2003B	10.760	<u>179,000</u>
		<u>935,000</u>
2003 Water Supply System Grant	10.760	<u>362,000</u>
Total U.S. Department of Agriculture		<u>1,297,000</u>
U.S. Department of Commerce		
Pass-through programs from:		
State of Michigan - Department of Environmental Quality		
Great Lakes Coastal Grant	11.419	14,834
U.S. Federal Emergency Management Agency and U.S. Department of Homeland Security		
Firefighters Grant Program	83.544	<u>148,500</u>
Total expenditures of federal awards		<u>\$ 1,460,334</u>

OSCEOLA TOWNSHIP
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the year ended March 31, 2004

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	Unqualified
Internal Control over financial reporting:	
• Material weakness(es) identified?	No
• Reportable condition(s) identified that are not considered to be material weaknesses?	None Reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
• Material weakness(es) identified?	No
• Reportable condition(s) identified that are not considered to be material weaknesses?	None Reported

Type of auditor's report issued on compliance for major programs:	Unqualified
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Any audit findings disclosed that are required to be reported in accordance with section 520(a) of Circular A-133?	No
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Identification of major programs:

Name of Federal Program	<u>CFDA Number</u>
U.S. Department of Agriculture	
Rural Utilities Service - 2001 Sewage Disposal System Revenue Bond	10.760

Dollar threshold used to distinguish between type A and type B programs:	\$300,000
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Auditee qualified as low-risk auditee?	No
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SECTION II - FINANCIAL STATEMENT FINDINGS - No matters were reported.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS - No matters were reported.

OSCEOLA TOWNSHIP
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
March 31, 2004

NOTE A - OVERSIGHT AGENCY

The U. S. Department of Agriculture is the current year's oversight agency for the single audit as determined by the agency providing the largest share of the Township's expenditures of federal awards.

NOTE B - BASIS OF ACCOUNTING

The Schedule of Expenditures of Federal Awards has been prepared on the accrual basis of accounting.



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LETTER OF COMMENTS AND RECOMMENDATIONS

Honorable Supervisor and Board of Trustees
Osceola Township
Dollar Bay, Michigan

In connection with our audit of the financial statements of Osceola Township for the year ended March 31, 2004, the following comments and recommendations concerning accounting procedures and controls in effect in the Township are presented for your consideration and action.

Volunteer Fire Department (Repeat of prior years comment)

The Fire Departments consider themselves, and the Township Board considers the Fire Departments, to be independent organizations operating outside of the Township reporting entity. Any monies earned by and used by the Fire Departments are not subject to Township Board approval or direction.

Because the Township's name is being used by the Fire Departments, we believe the Fire Departments could be construed to be a component unit of the Township, thereby subjecting it to audit and inclusion in the Township reporting entity.

We recommend that the Township Board contact legal counsel to determine the appropriate course of action to take in order to establish the Fire Departments as separate legal entities.

Insured Deposits

We noted that approximately ninety-four percent (94%) of the Township's deposits are insured by the Federal Deposit Insurance Corporation (FDIC). We recommend that deposits be extended to various financial institutions to increase the percent of deposits insured and to decrease the risk of loss to the Township.

Payroll

We noted that U.S. Department of Justice Immigration and Naturalization Service Form I-9 has not been completed for employees hired after November 9, 1986. Forms should be completed for each employee and placed in their personnel file.

It was noted that salary and wage information for employees and elected officials is not documented in the board minutes or in the personnel files. We recommend that documentation be placed in the personnel files.

Excess Expenditures over Budget

P.A. 621 of 1978, section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. During the year ended March 31, 2004, the Township incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated, as follows:

<u>Fund/Activity</u>	<u>Total Appropriations</u>	<u>Amount of Expenditures</u>	<u>Budget Variances</u>
General Fund:			
Supervisor	\$10,060	\$10,083	\$(23)
Treasurer	\$17,450	\$18,777	\$(1,327)
Town Hall	\$13,575	\$19,775	\$(6,200)
General Services	\$81,872	\$86,573	\$(4,701)
Roads & Streets	\$26,130	\$37,419	\$(11,289)
Fire Protection Fund	\$ -	\$200,127	\$(200,127)
Road Improvement Fund	\$ -	\$20,517	\$(20,517)

We recommend that timely revisions be made to the budget and to the appropriations so that these over expenditures do not occur in the future.

Purchase Orders

We noted that purchase orders are not being utilized. We recommend that the Township have employees fill out a purchase order and seek approval before items are purchased.

We would like to thank the staff for the excellent cooperation we received during our audit. We appreciate the opportunity to present these comments and recommendations for your consideration and we are prepared to discuss them at your convenience.

This report is intended solely for the use of management and the governmental regulatory agencies and should not be used for any other purposes.

Bruce A. Rukkila, C.P.A., P.C.

Certified Public Accountants

August 30, 2004